

Auditor-General South Africa

iLembe District Municipality-  
Audit report 2014-15

NOT FOR PUBLISHING

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on iLembe District Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the iLembe District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of iLembe District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Material losses and impairments

8. As disclosed in note 25 to the annual financial statements, the reversal of impairment amounting to R83,66 million (2014:R299,74 million) was as a result of significant increases in the remaining useful lives of infrastructure assets.
9. As disclosed in note 35.7 to the financial statements, material water losses of 8,76 million kilolitres amounting to R77,82 million (2014: 11,19 million kilolitres amounting to R75,31 million) was incurred. The distribution losses are mainly due to illegal connections, main leaks (ageing infrastructure), reservoir overflows and service connection leaks.
10. As disclosed in note 35.6.2 to the annual financial statements, material debt impairment losses of R23,80 million (2014:R21,83 million) raised against the provision for bad debts. This is mainly as a result of slow paying consumers.

## Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for basic service delivery key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2015.
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting

principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).

15. I assessed the reliability of the reported performance information to determine if it was valid, accurate and complete.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:
  - a. Objective 1: To provide continuous and sustainable provision of water services
  - b. Objective 2: To provide continuous and sustainable provision of sanitation services
  - c. Objective 3: To provide continuous and sustainable provision of water and sanitation services
  - d. Objective 4: To ensure access to portable quality water for domestic consumption and support local economic development
  - e. Objective 5: Create job opportunities through Expanded Public Works Programme
17. Although I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

### Achievement of planned targets

18. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

### **Compliance with legislation**

19. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

### **Internal control**

20. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

## **Other reports**

### **Investigations**

21. Provincial treasury performed three investigations into supply chain management, security tender processes and change of supplier banking details. These investigations were still in progress as at the date of this report.

*Auditor-General*  
Pietermaritzburg  
30 November 2015



**AUDITOR-GENERAL  
SOUTH AFRICA**

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